

OUTLOOK

A Publication of the South Dakota Retirement System

Number 3 • November 2001

Planning

Retirement Planning Starts with the Question "How Much?"

The simple phrase "how much?" goes a long way in defining the retirement planning process. For example, SDRS members who know how much income they'll need and know how much income they'll actually receive, will have addressed two of retirement's fundamental questions.

How Much Income Will You Need?

Experts agree that to maintain your standard of living after you retire

requires an income of between 70 and 85 percent of salary. Living the same with less is possible because retirement brings significant reductions in expenses, some of which may be surprising. For example, Class A members will lower their expenses by nearly 13 percent of pay after contributions to SDRS and Social Security are discontinued. Income taxes may also be reduced, mortgages will often be paid, work expenses will be eliminated and contributions to retirement savings plans will no

Inside This Issue...

3 Understanding Your Personal Benefits Statement

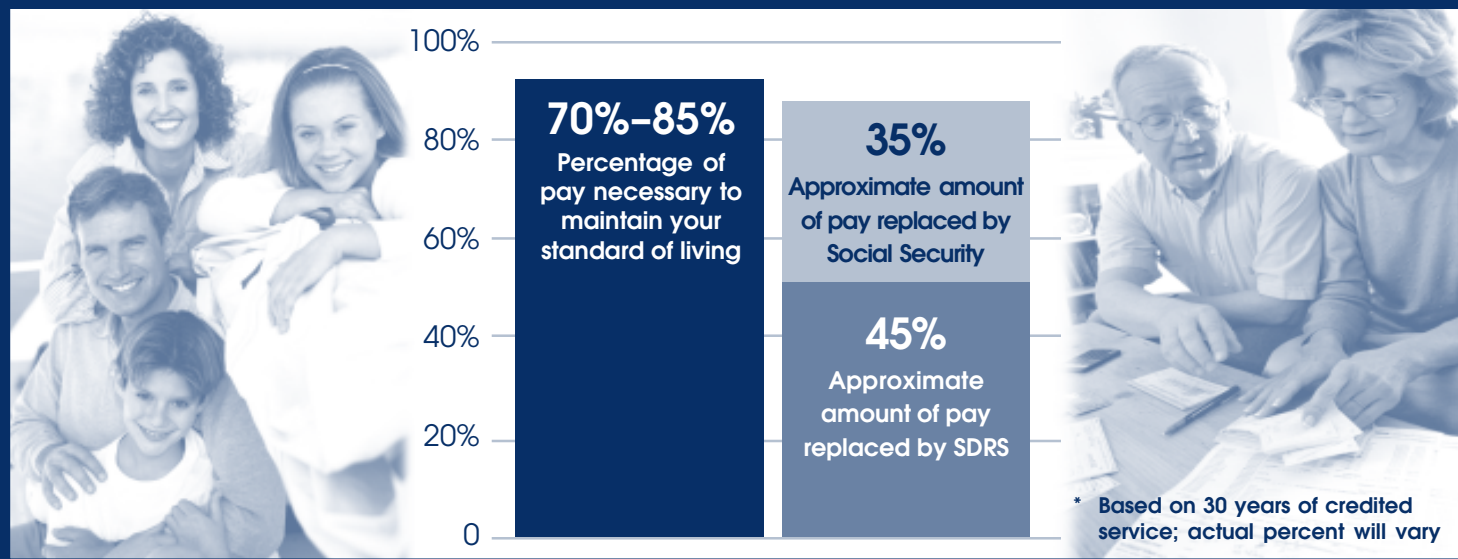
5 NEW: An E-mail Link on the SDRS Web Site

longer be necessary. Consequently, if your annual salary is \$35,000, you'll need an income of \$25,000 to \$30,000 to continue to live as you did while you were working. That's still a large sum, and you'll want to know where it will come from.

continued on page 2

How Much Income Will You Need?

How Much Will You Have?*



How Much Will You Have?

For SDRS members, retirement income will come from three main sources:

- SDRS Retirement Benefits
- Social Security Benefits
- Personal Savings

SDRS members who have a full career in the system (30 years) can be confident that the combination of SDRS and Social Security benefits will replace 70 to 85 percent of their working salary. Typically, SDRS will replace about 45 percent and Social Security 35 percent of pay. This income, unlike income from a nest egg in a savings account or IRA, will continue for a member's lifetime. Moreover, the benefits will be increased annually to blunt the effect of inflation.

Many SDRS members, however, will have less than 30 years of credited service when they retire. If so, they are not likely to achieve a 70 to 85 percent income replacement from SDRS and Social Security benefits alone. These members will have to supplement those payments with personal savings from SDRS's Supplemental Retirement Plan (SRP), an IRA or other investments, or will need to continue working after retirement.

Even for members who have reached their replacement goal with SDRS and Social Security, personal savings can become important if their income requirements increase. When evaluating your income needs during retirement, consider

the following questions and adjust your targets accordingly.

- Will your employer continue to pay for your health insurance after retirement, or will you need to purchase medical coverage?

Typically, SDRS will replace about 45 percent and Social Security 35 percent of pay.

- Will you still have educational expenses for children after you retire?

- Will you have a significant financial obligation for your parents or other family members?
- Will you continue to have payments on a mortgage or other large loans after you retire?
 - Do you expect to add expenses that you didn't have while working, such as traveling extensively, remodeling your present home, purchasing a vacation or motor home, or spending winter months in the south?
- Will you need to supplement your income during periods of high inflation? **OUTLOOK**



Board Notes

The following is a summary of major issues that came before the SDRS Board of Trustees at its meeting on September 19, 2001.

Election of Chair and Vice-Chair—

The board re-elected Elmer Brinkman and Lowell Slyter to positions as board chair and vice-chair, respectively.

Reserve for Funding of Long Term

Benefit Goals—SDRS's actuary reported the preliminary projections for the Reserve as of June 30, 2001.

Investment Update—Steve Myers, State Investment Officer, reported on SDRS's total investment return for the current fiscal year to date.

Update of Survey of Average Benefit

Practices for Class A Members—The board's actuary presented a brief comparison of average benefit practices in other public retirement systems for Class A members.

SDRS Long Term Goals—The board reviewed and revised the SDRS Long Term Goals and Objectives.

Member Issues File—The board discussed and updated the Member Issues File.

Class A Alternate Formula Pro-

posal—The board reviewed and approved a new proposal for the Class A Alternate Formula for presentation to the Retirement Laws Committee.

A Statement of SDRS Principles and

Direction—The board approved the revised *Statement of Principles and Direction for the Plan Design of SDRS*.

2001 Tax Act Changes—The board decided to hold an Administrative Rules Hearing in conjunction with its December meeting to incorporate the 2001 Tax Act changes.

SRP Investment Performance—Curt Morrow from National Deferred Compensation, Inc. compared the SRP investment performance to appropriate benchmarks for the fiscal year ending June 30, 2001.

Trustee Attendance at Board

Meeting—Present: Brian Berglin, Elmer Brinkman, Carol Burch, James Hansen, Royce Hueners, Louise Loban, K.J. McDonald, Dave Merrill, Steve Myers, Robert Overturf, Pam Roberts, Wes Tschetter, Don Zeller, Sandy Zinter, Judge Steve Zinter

Absent: Tracy Dahl-Webb and Lowell Slyter

Planning

Understanding Your Personal Benefits Statement

An essential tool in planning for retirement, the SDRS Personal Benefit Statement is sent to every active and inactive member of the

system in the fall of each year. The following sample has been annotated to explain the various sections of the statement. [Outlook](#)

Annotations to the Personal Benefits Statement

- a** Amount member has contributed from salary, plus any purchases or redeposits, as of date shown.
- b** Assuming contributions to SDRS stopped as of date shown*, the total amount of benefit payments member would receive over an average life span if he/she begins receiving payments at normal retirement age. The calculations include:
 - An increase in the initial benefit of 3.1 percent each year until normal retirement
 - A 3.1 percent cost-of-living increase in the retirement benefit each year after member begins receiving payments
- c** Based on the above assumption, the initial monthly benefit payment member would receive at normal retirement age.
- d** The projected amounts member would contribute to SDRS if he/she continues contributing until the three ages shown. These amounts assume that the member receives a 3.1 percent salary increase each year. However, for terminated members no salary increase is assumed.
- e** The amount of lifetime benefits member would receive at three different retirement ages if he/she continues contributing to SDRS until retirement at the ages shown. The amounts received at ages 55 and 62 may reflect a reduction for early retirement.
- f** The initial monthly benefit payment member would receive at three different retirement ages if he/she continues contributing to SDRS until the ages shown.
- g** As of date shown, the amount of refund member would receive if he/she were to end SDRS membership and withdraw contributions plus interest.
- h** The amounts that contributions, projected lifetime benefit and refund amount have increased since June 30, 2000.
- i** The percentage of final salary that would be replaced by SDRS benefit payments at retirement.

* These calculations also apply to vested members who have terminated their employment and left their contributions with SDRS.

Personal Benefits Statement

Jane Doe
1234 Washington
Pierre SD 57501

This statement was prepared from information on file at SDRS. Please check all data carefully. If you find errors, make a copy with corrections and return it to SDRS, PO Box 1098, Pierre, South Dakota 57501. Please include your phone number.

1

Comparing the Amount of Your Contributions to the Value of Your Benefits

| | |
|--|--|
| As of June 30, 2001 | |
| If you continue membership in SDRS and retire at | |
| Age 55 | |
| Age 62 | |
| Age 65 | |

Amount of Your Contributions
↓

a
\$8,223

d
\$28,957

\$54,298

\$61,945

The Lifetime Value of your SDRS Retirement Benefit
↓

b
\$222,853

e
\$757,746

\$793,688

\$795,154

The Monthly Value of your SDRS Retirement Benefit
↓

c
\$694

f
\$1,401

\$2,098

\$2,470

2

Increases In Your Contributions and Benefit Values Since Last Year

| | |
|---------------------------|--|
| As of June 30, 2001 | |
| h Increase from last year | |

Amount of Your Contributions
↓

\$8,223

h
\$1,036

The Lifetime Value of Your SDRS Retirement Benefit
↓

\$222,853

\$35,322

Your Refund Amount
↓

g
\$20,844

\$11,929

3

Percentage of Your Income Replaced by SDRS

i This amount does not include income from Social Security or other retirement plans.

43%
Age 55

53%
Age 62

56%
Age 65

Web site

NEW: An E-mail Link on the SDRS Web Site

A system is now in place on our Web site that allows members to direct questions and comments to SDRS via e-mail. On the home page is a button titled "Contact Information" that, when clicked,

Exchange, etc.). The new message will automatically have the SDRS e-mail address inserted. Completing the message and clicking "Send" finalizes

Contact Information

opens a second page. A link called "E-mail SDRS" is located toward the bottom of that page. Clicking on "E-mail SDRS" opens a "New Message" box in the member's e-mail software (Outlook Express, Microsoft

the action.

To be certain that e-mail requests do not take precedence over written correspondence, SDRS will log-in e-mails, incorporate them into our normal work schedule and respond as SDRS would to any incoming letter. **OUTLOOK**

Supplemental Retirement Plan

One of the best tax-deferred methods of investing for your retirement

For more information, call the SRP office at
1-800-959-4457.

OUTLOOK Interview

continued from page 6

Dahl-Webb: That's right. So an increase in the base benefit to 1.55 percent would be permanent because it would be funded by the additional contributions that will begin on July 1, 2002.

Outlook: What has to happen before the improvement to the base benefit occurs?

Dahl-Webb: The board must approve a recommendation to the Legislature, the Legislature must pass enabling legislation to implement the improvement and the Governor must sign it into law. Assuming all of that happens, any credited service earned after July 1 of next year will be calculated using a formula with a multiplier of 1.55 percent. If we accomplish that, the system will have made a great stride forward.

Outlook: What was the driving force behind this improvement?

Dahl-Webb: Without question, the Governor, the executive branch and the Legislature deserve the credit for making this major benefit improvement possible. They saw this as necessary if SDRS was to achieve its goal of providing adequate retirement income for its members. The Retirement Laws Committee gathered public testimony and put the concept into final form while the executive branch was unfailing in its support for SDRS and the need to improve benefits for Class A members. We couldn't have a better situation going into this year's session. **OUTLOOK**

Tracy Dahl-Webb has represented municipal employees on the SDRS Board of Trustees since 1995.



“The Governor, the executive branch and the Legislature deserve the credit for making this major benefit improvement possible.”

OUTLOOK Interview

Tracy Dahl-Webb

Beginning on July 1, 2002, Class A employee and employer contributions to SDRS will each increase by 1 percent of pay. This increase will generate the additional contribution rates required to raise the multiplier in the base benefit formula (Class A Multiplier times Final Average Salary times Years of Credited Service after July 1, 2002) from the present 1.3 percent to 1.55 percent. Tracy Dahl-Webb discusses the significance an increase in the base benefit would have for Class A members.

Outlook: The board is considering a recommendation for next year's Legislature that would raise the Class A base benefit formula from 1.3 to 1.55 percent. How significant would this increase be for SDRS members?

Dahl-Webb: If the recommendation becomes law, it will increase future retirement benefits for over 32,800 members, push the multiplier up 20 percent and move the system much closer to its long term benefit goals. I can't think of a more significant improvement in Class A benefits since the system was created in 1974.

Outlook: How would this improvement be different from those we've had in recent years?

Dahl-Webb: In the last few years, increases in the formula have only applied to specific periods of credited service. For example, the current enhanced benefit formula improvement only applies to credited service earned before July 1, 2002. The proposed improvement, however, will apply to all credited service earned after July 1, 2002.

Outlook: Why is this improvement permanent and the others limited?

Dahl-Webb: This improvement would be funded with an increase in employer/member contribution rates in contrast to past improvements that were funded by superior investment earnings. Because the stream of new dollars coming in from contributions would be permanent, SDRS could safely increase the formula on a permanent basis. Technically, this is an increase to the ongoing base benefit formula. Formula improvements in the recent past were enhanced

improvements, funded with investment earnings and always applied to a specific period of credited service and not on-going into the future.

Outlook: Why couldn't investment earnings be used to permanently improve the formula?

Dahl-Webb: The first 8 percent of investment earnings are already being used, in addition to contributions, to pay for the base benefit. It's only when the investment office earns over 8 percent on the SDRS trust fund that there's money to improve the formula. Because it's impossible to guarantee that earnings will permanently exceed 8 percent, the time period during which the enhanced formula applies has to be limited.

Outlook: So the base benefit is funded with a combination of contributions and the first 8 percent of investment earnings and the enhanced benefit with investment earnings over 8 percent.

continued on page 5

PRSRSTD
U.S. Postage
PAID
Pierre, SD 57501
Permit No. 123

South Dakota Retirement System
P. O. Box 1098
Pierre, South Dakota 57501

